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Annex "A," Subparagraph 3d,
Economic Background

BANKING AND CURRENCY

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652 The banking system in East China mirrors the banking system of Communist China as a whole. It consists of branches of the following institutions: (A) People's Bank of China; (B) Bank of China; (C) Bank of Communications; (D) Chinese People's Construction Bank; (E) Agricultural Bank of China; (F) Joint State-Private Bank; (G) Credit Co-operatives (the basic banking structure in rural areas); and (H) the Chinese People's Insurance Company, which is also a depositary of long-term funds and may be considered as a part of the Communist banking system in China.

I. THE COMMUNIST BANKING SYSTEM IN CHINA

A. People's Bank of China

The head office of the People's Bank of China is in Peking. A regional branch office in Shanghai, functioning as a regional head office for East China, was reduced in rank after the promulgation of the new Constitution in September 1954 and the abolition of the Greater Administrative Area of East China;

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453 652 the Shanghai office is now simply a branch office subject to direct control by the head office.

There are, besides the Shanghai branch, five branch offices in East China, one in each provincial capital:

Nanking	-	Kiangsu Province
Hangchow	-	Chekiang Province
Hofei	-	Anhwei Province
Foochow	-	Fukien Province
Tsinan	-	Shantung Province

Sub-branch offices are established under each of these branches in counties (hsien), cities, and major towns. Temporary organizations, called central sub-branch offices, are set up at such places as political centers or communications centers to oversee a certain number of sub-branch offices, but may be abolished as soon as the need for such offices ceases.

In addition, and below these three kinds of branch offices, there is a layer of subordinate offices, called agencies, sub-agencies, and stations, handling deposits and payments. These are generally located on main thoroughfares in large cities, in villages, and within schools, factories, and on military posts, and

offer ordinary banking services. A great number of such "low-hierarchy" banking offices are found in every part of Shanghai; traveling bank agents visit villages to collect deposits and extend rural credit.

According to incomplete statistics there are about 600 sub-branch offices and about 40 central sub-branch offices to be found in 438 counties, 45 cities, and 34 major towns in the five provinces of East China, besides several thousand agencies and stations.

The branch offices of the People's Bank of China in the provincial capitals are the highest monetary organ of each province, except that the Shanghai branch office reports directly to the bank's head office. The branch offices[1] are empowered to: (a) to adjust the circulation of the currency; (b) act as agent for the state treasury; (c) accept current accounts and promote savings accounts; (d) extend credits to industry and commerce, both public and private, either directly or through affiliated banks; (e) handle the clearings of

1. Kuo-min Ching-chi Shih-yung Tz'u-tien [Popular Dictionary of Practical Economics], Shanghai, Ch'un-min Press, 1953, p. 8,013.

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453 bills, transfer accounts, and facilitate re-
452 mittances; (f) extend rural credits either through its own agencies or through co-operatives; (g) look after the receipts and disbursements of foreign exchange handled by affiliated banks; and (h) handle any other monetary matters arising within their jurisdiction.

B. Bank of China

The Bank of China, a "semi-governmental" concern handling foreign exchange, is fully controlled by the Communist government. In view of its tradition and reputation, well-trained personnel, and overseas branches, the government allowed it to carry on business in its old status. The nine directors representing government interests were replaced with new government appointees, the twelve directors representing private interests were recognized, and new directors were elected from among the private shareholders at a recent shareholders' meeting. In fact, the Bank of China became a subsidiary of the People's Bank of China. Its head office was moved from Shanghai to Peking; the director-general of the People's Bank serves concurrently as the Chairman of the Board of the Bank of China, and the general manager of the Bank of China is appointed by the government.

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652 The Bank of China has 23 branches in China proper, wherever there is thriving foreign trade or a concentration of overseas remittances; a total of 11 overseas branches are maintained, at Hong Kong, London, Singapore, Penang, Kuala Lumpur, Calcutta, Bombay, Karachi, Chittagong, Rangoon, and Djakarta. These branches, established by the previous management, were transferred to control of the present management when Great Britian, India, Burma, and Indonesia recognized Communist China. Eight branches -- Saigon, Phnom Penh, Bangkok, Osaka, Tokyo, Havana, New York, Sydney -- are located in countries which did not recognize Communist China, and these branches are still controlled by the head office of the Bank of China in Formosa.

The Bank of China has six branches in East China: Shanghai in Kiangsu Province, Tsingtao and Chefoo in Shantung Province, and Foochow, Amoy, and Ch'üan-chou in Fukien Province. Under the three branches in Fukien Province there are a number of overseas Chinese "service" stations.

The Bank of China is entrusted by the People's Bank with the task of: (a) attending

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453 652 to matters connected with the control of foreign exchange; (b) handling foreign exchange, foreign securities, bills of exchange, and other commercial documents payable in foreign currency; (c) extending credits, and accepting deposits in connection with foreign trade; (d) looking after the accounts and clearings of foreign trade conducted by and through government organizations; and (e) controlling overseas remittances.[2]

Branches of the Bank of China, as agencies of the People's Bank, can engage in banking transactions other than foreign exchange if so directed by the People's Bank.

C. Bank of Communications

The Bank of Communications, a "semi-governmental" concern for handling industrial credits, was also allowed to continue in its old status because of its fine reputation as traditional as that of the Bank of China. The twelve directors representing government interests were replaced by new government appointees, and nine directors representing private interests were recognized. New

2. Ching-chi Chou-pao [Economic Weekly], Shanghai, No. 31, 1952, pp. 616-617.

453 directors were elected from among the share-
652 holders at a recent shareholders' meeting.

The Bank of Communications has its head office in Peking and maintains nearly 160 branches throughout the country, wherever modern industries exist. Of its three overseas branches, Hong Kong, Calcutta, and Rangoon are under the control of the Peking head office; because France and the Philippines have not recognized Communist China, the Saigon branch and the Philippine Bank of Communications (a subsidiary) are run by the head office of the Bank of Communications in Formosa.

Among the more important of the branches functioning in East China are: Shanghai, Nanking, Soochow, Wu-hsi, Ch'ang-chou, Chen-chiang, Nan-t'ung, Hsü-chou, Hai-men, and Ch'ung-ming in Kiangsu Province; Hangchow, Chia-hsing, Hu-chou and Ningpo in Chekiang Province; Wu-hu and Pang-pu in Anhwei Province; Foochow and Amoy in Fukien Province; and Tsinan, Tsingtao, Chefoo, Wei-hsien and Po-shan in Shantung Province

The Bank of Communications is authorized by the People's Bank to (a) handle government appropriations set aside for government construction and screen and approve applications for appropriations for such construction; (b) organize long-term investment markets; (c) control ownership rights for public shares of enterprises

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operated by joint state-private interests; and (d) handle long-term credits.[3]

Upon the establishment of the Chinese People's Construction Bank in 1954, the handling of appropriations for construction was transferred to the new bank; the Bank of Communications is now limited to looking after long-term credits to joint state-private industry. It is expected that the two banks may be merged as soon as the joint state-private industry becomes a state enterprise.

D. Chinese People's Construction Bank

The Chinese People's Construction Bank was established in October 1954 to handle the increasing number of government appropriations for construction projects and to meet the need for tighter supervision of expenditures for this purpose. Although the bank is nominally under the control of the Ministry of Finance, it is in effect another subsidiary of the People's Bank of China: it receives the appropriations from the People's Bank, credits them to the account of projects, and supplies to the projects the necessary short-term credits which are provided by the People's Bank according to the

3. Cheng Chu-yüan, Monetary Affairs of Communist China, Hong Kong, The Union Research Institute, 1954, p. 25.

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652 government's credit plans. The Chinese People's Construction Bank has, therefore, only a negligible area of fiscal discretion.

Within a few months after its establishment, the Chinese People's Construction Bank set up branches near all government industries and stationed its agents at less important points. The branch offices are located in buildings occupied by the People's Bank of China or the Bank of Communications.

The bank's functions are: (a) to look after the funds for construction projects, either as provided by appropriations from the budget or as raised by the projects themselves; (b) to supply short-term credits to the contracting organizations undertaking work for the projects, according to the government's credit plan; (c) to settle accounts and make returns in accordance with the government's appropriations for the projects; and (d) to supervise the use of funds appropriated or raised, the arrangement of payment between the projects and contracting organizations, and matters related to the financing, cost-accounting, and investment in these projects.[4]

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4. New China News Agency, Peking, Sept., 13, 1954.

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E. Agricultural Bank of China

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The Agricultural Bank of China was established on March 25, 1955, and operates under the control of the People's Bank of China. Its functions are (a) the extension of long-term and short-term credits to jointly-operated agricultural, stock-raising, fishery, mutual-aid, and co-operative organizations as well as to individual producers; (b) the handling of capital investments allocated in the state budget for agriculture, forestry, and water conservation; (c) the guidance of credit co-operative organizations; (d) and the provision of savings-deposit services for rural residents, mutual-aid and co-operative organizations, collective farms, state agriculture, and water conservation.[5]

This bank was established to foster the acceleration of the Communist policy of co-operativization of agriculture. Its chief function is to promote and supervise credit co-operatives and to assure that extension of rural credits is soundly conducted.

F. Joint State-Private Bank

The Joint State-Private Bank was created in December 1952 as the result of the merger of

5. New China News Agency, Peking, March 25, 1955.

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652 sixty private banks in Shanghai. It represents the extermination of private-banking enterprise in China. Its board is composed of 27 directors representing the Communist government and 76 directors representing private interests. The assistant managing director of the People's Bank is concurrently the chairman of the board of directors. The director of the East China regional office and the manager of the Shanghai branch of the People's Bank of China are concurrently vice-chairmen of the board of the Joint State-Private Bank with three vice-chairmen appointed from among the private bankers. The joint administration of the bank is headed by the vice-chairman who serves as manager of the Shanghai Branch of the People's Bank. Thus the Joint State-Private Bank is nothing more than a subsidiary of the People's Bank. Its head office is located in Peking; all branches of the component banks were merged and are now limited to branches in thirteen cities.

The merger resulted in unemployment for many bank employees. In Shanghai, for example, of 5,100 former staff members, 2,500 were employed by the new bank, 1,300 by the People's Bank, and the remaining 1,300 were sent to vocational training schools.[6] Failure to provide

6. Confidential report of Shanghai Commercial and Savings Bank, Hong Kong.

453 652 employment for all created bad feeling among displaced banking employees.

The Hong Kong branches of nine component banks, namely Chin-ch'eng Banking Corporation, Yen Yeh Commercial Bank, China and South Sea Bank, Hsin Hua Savings Bank, the China State Bank, Ho Ch'eng Bank, the Young Brothers Banking Corporation, the National Commercial Bank, and the National Industrial Bank, were allowed to continue operations under a supervisor appointed by the People's Bank and stationed in Hong Kong.

The branch of the Shanghai Commercial and Savings Bank, a component bank which had been separately registered under Hong Kong banking regulations and had a separate board of directors, severed connections with its Shanghai head office and submitted to the control of its head office in Formosa, established in 1954 by permission of the Chinese Nationalist Government. The Chekiang First Bank of Commerce in Hong Kong, the parent of which is also a component bank, was established in 1950 with independent capital under Hong Kong banking regulations; it now operates as a local bank. Thus the Shanghai Commercial Bank and the Chekiang First Bank of Commerce in Hong Kong are the only remnants of Chinese commercial banking.

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453 652 The Joint State-Private Bank has branches in Shanghai, Nanking, Hangchow Tsingtao, and Amoy. Under the Shanghai branch there are twenty-seven agencies within the city. The functions of the Joint State-Private Bank are (a) the handling of accounts of private enterprises; (b) the extension of short-term credits to private enterprises, subject to approval by the People's Bank; (c) the handling of overseas Chinese remittances and inland remittances for the account of the Bank of China through the branches of component banks still operating in Hong Kong; (d) the acceptance of savings deposits for the account of the People's Bank.[7]

G. Credit Co-operatives

452 474 The credit co-operatives, the basic level of the People's Bank in rural areas, are of three types -- credit co-operatives, credit departments, and mutual-aid teams.

The credit co-operative is a high-level organization with members and a board of directors; capital shares are subscribed by the members, and these deposits become the co-operatives's main financial source.

7. Ibid.

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H. Chinese People's Insurance Company

456 On assuming control of Shanghai, the Communists took steps to eliminate both foreign-operated and Chinese-owned insurance firms and to convert the insurance business into a government monopoly. On October 20, 1949, the Chinese People's Insurance Company, a government concern, was established under the guidance of the Ministry of Finance and the People's Bank; its branches, sub-branches, and agencies now extend throughout China. All offices of the People's Bank in small towns and rural areas act as its agents. Government agencies, state enterprises, and co-operatives, and all persons traveling by train, steamer, and airplane, must obtain insurance from this company. Fire, accident, automobile, agricultural, and life insurance are voluntary, but collective personal insurance and insurance on plowing animals and cotton crops are particularly encouraged.

Concentration of the entire insurance business in the Chinese People's Insurance Company and promotion of all forms of insurance serve as an important means of accumulating scattered funds in the People's Bank. The 463 652 following chart outlines the banking system in East China:

457 Foreign banks, the pillars of the Shanghai money market for nearly two centuries, withdrew from Shanghai, Tsingtao, and Amoy when the government sought to monopolize foreign trade. The control of overseas remittances was assumed by the Bank of China. Restrictions on the movement of foreign personnel, high taxes on their property, and unreasonable demands on the part of Chinese employees made it impossible for foreign banks to continue.

426 Pawnshops, the oldest credit mechanism for the common people, were unable to obtain credit from banks after the Communists enforced selective credit controls. The working capital of East China pawn shops, particularly in Kiangsu and Chekiang provinces, had come from bank credits and deposits. But under the provisional regulations governing pawnshops, promulgated in September 1950, they were required to increase capital, were forbidden to accept deposits, and were subject to many other restrictions. As a result, most of them "voluntarily" discontinued business. At the end of 1952 those few pawnshops which had remained in business were advised to close.

453 The only remnants of the so-called capitalist banking structure in East China are three overseas Chinese banks in Shanghai, a branch of the Overseas Chinese Banking Corporation of Singapore, a branch of the Bank of East Asia of Hong Kong, and the Chi-yu Banking

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453 Corporation of Amoy, organized by the overseas Chinese; two overseas Chinese banks remain in Amoy, a branch of the Overseas Chinese Banking Corporation and the Chi-yu Banking Corporation. They are allowed to continue operation, because the Communists are attempting to build good will among overseas Chinese, but they are allowed to handle only a small number of overseas remittances.

Before the Communists took over, Shanghai had two government banks (the Central Bank of China and the Farmers' Bank), two "semi-government" banks (the Bank of China and the Bank of Communications), one provincial bank, one municipal bank, 15 foreign banks, 74 modern commercial banks, and 76 native banks; all were either head offices or controlling offices. In addition there were 60 branch offices of commercia banks registered elsewhere. The elimination of all of these banks was tantamount to the liquidation of the old banking structure in China and made possible the establishment of a Communist banking structure.

II. BANKING OPERATIONS IN EAST CHINA

The People's Bank of China has become the supreme monetary organization and all other banks are in effect its subsidiaries. Each bank operates as a part of the whole.

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453 The main objectives of all banking operations are to force all persons and organizations to keep accounts with the banks and to make sure that credits granted are used according to government plan. Fulfillment of these objectives will mean the subjection of all economic activity to Communist control.

A. Cash Control

All cash held by public and private organizations, co-operatives, and individuals, except for nominal amounts, must be deposited with the local office of the People's Bank or its designated agency. All payments, except those for salaries, wages, and purchases of products in rural areas, must be made by check. The net proceeds of each day's operations must be banked that day, and the maximum amount of cash one person can hold is PB$ 2 million[9] (about US$ 80). To avoid currency inflation, checks issued to public organizations are valid only one day, those issued to private enterprises are valid only three days, and none are transferable. To restrict issuance of checks for local transactions, various means of transference have been devised.

Domestic remittances were facilitated

9. Monetary Affairs of Communist China, p. 84.

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453 by incorporating post offices into the agency network of the People's Bank of China. The 30,000 agencies throughout the country in early 1953 handled remittances of unrestricted amounts[10] at a negligible fee, from 1/1,000 to 5/10,000 of the value of the remittance transferred within a province, and twice these fees for a remittance transferred between provinces. Payments in the five cities of Peking, Tientsin, Shanghai, Hankow, and Canton are made free of any fee; in many places mobile bank-service teams furnish cash pickup service; in rural areas remittance service is available twenty-four hours a day. At the same time, cash permitted to be carried while traveling is limited to PB$ 1 million (about US$ 40).

454 Savings deposits are also vigorously promoted by the People's Bank for the dual purpose of checking inflation and channeling idle funds to industry and agriculture. In areas of concentrated population, industry, or governmental activity, small offices handle savings; in areas of scattered population, mobile service teams solicit savings from house to house. Current savings draw high interest rates of 5.1 per cent to 5.4 per cent per annum; fixed deposits pay from 9 per cent to 14.4 per cent. Reports in early 1954 place the total amount of deposited

10. Ibid., pp. 55-56.